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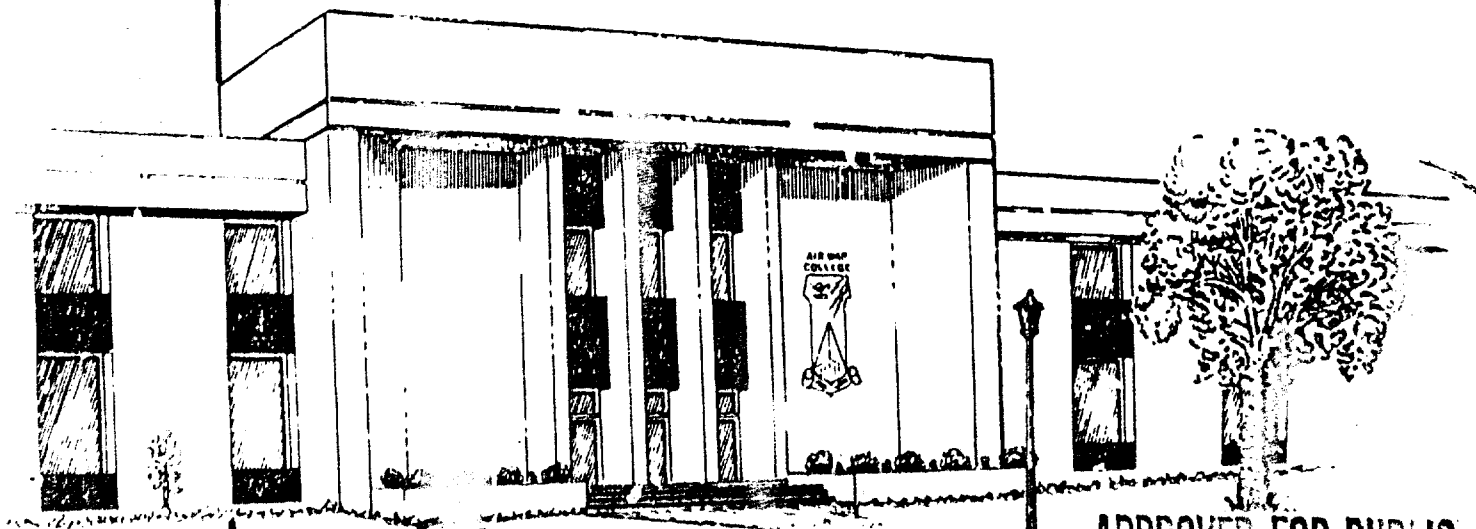
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DIVESTITURE--
A STEP TOWARD FISCAL FITNESS

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1988



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AIR UNIVERSITY
UNITED STATES AIR FORCE
MAXWELL AIR FORCE BASE, ALABAMA

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DIVESTITURE--
A STEP TOWARD FISCAL FITNESS

by

MICHAEL R. GALLAGHER
Colonel, USAF



A RESEARCH REPORT SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE RESEARCH
REQUIREMENT

Research Advisor: Colonel James J. Winters

MAXWELL AIR FORCE BASE, ALABAMA

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: Divestiture--A Step Toward Fiscal Fitness

AUTHOR: Michael R. Gallagher, Colonel, USAF

→ Surveys available literature on civil sector
divestiture to establish a base for discussion of the
concept in the Air Force. st Details a case study of the light
tactical transport mission to support one case for
divestment. ^{The author} Provides several other possible examples of
areas where divestment might be appropriate. nd Suggests that
divestiture should be included in the Air Force planning,
programming, and budget system. ^{He} Also, ^p advocates taking
advantage of unique opportunities for divestiture which will
not be captured in a routine annual process.

Keywords: Case Studies, light fixed wing tactical aircraft, etc.

BIOGRAPHICAL SKETCH

Colonel Michael R. Gallagher (M.P.A., Golden Gate University) became interested in the concept of divestiture during his 1982-85 tour on the Air Staff in the Plans Directorate. He was the commander of the 7th Military Airlift Squadron, Travis AFB CA, from 1985-87. He has extensive operational and combat experience in the C-141 and C-130 and holds the Distinguished Flying Cross. He is a graduate of the Air Command and Staff College and Squadron Officer's School. Colonel Gallagher is a graduate of the Air War College, Class of 1988.

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INTRODUCTION

A brief survey of management journals and the financial pages of most newspapers will reveal a significant change in current philosophy: big is not always better. The rise of conglomerates in the last two decades has given way to a strange new term - divestiture. Many large corporations who aggressively sought merger opportunities have reversed course and are now "spinning off" many of their acquisitions. Why the sudden change?

This paper will attempt to answer that key question and then use the resultant insight to evaluate its applicability to the military. Clearly, what is good for American corporations may not be good for our military, but history provides us with some examples which portend similar opportunities in the future.

One need not look any further back than World War II and the stubborn survival of the horse cavalry nearly a hundred years after the Minie ball had made it obsolete as an offensive weapon to see the problem.¹ In addition to the Minie ball, the tank had a clear impact on the future of the horse on the battlefield. Certainly, the U.S. Army War Plans Division attachment to the horse in 1938 did not reflect ignorance of the value of the tank or the impact of modern munitions.² Tank development was, in fact, being pushed. The issue before us in this paper is why wasn't the

horse cavalry dropped (i.e. divested) by the planners?

Looking further back in military history, the Battle of Crec'y in 1346 provides sobering evidence of the persistence of an approach to war after events had proven the time for change had arrived. Until Crec'y, heavily armored knights mounted on horseback seemed to be a kind of ultimate weapon for the close-in battles common in Europe. At Crec'y English longbowmen demonstrated the effectiveness of arrows at long range against the knights by killing nearly 10,000. For fifty years, however, the French continued to field knights, along with other more effective counters to the bow threat. Again the question is raised, why wasn't the obsolete system discarded instead of being maintained long after new approaches had been perfected?³

The current decline in the defense budget suggests that we should be alert to the lessons of military history as well as the experience of business to find ways to eliminate expenditures which are not meeting tough tests of effectiveness.

In the second part of this paper, an examination of some current force structure questions will be undertaken to illuminate basic principles. The fascinating case of light tactical transports for the USAF will be described. We have completed a cycle which saw the C-7A Caribou transferred from the Army to the Air Force during the Vietnam War. Old age forced the C-7A out of the inventory for over a decade.

Now the Air Force is looking once again for a similar vehicle. From this and other examples some basic approaches to divestiture will emerge.

The last part of the paper will attempt to suggest how the current budget process could be modified to force a consideration of areas that should be slated for divestiture. The task is difficult. A noted military historian summed it up well, "To establish a new invention is like establishing a new religion - - it usually demands the conversion or destruction of an entire priesthood."⁴

CHAPTER II

DIVESTITURE IN THE CIVIL SECTOR

"Kraft Inc. Puts Duracell on Sales Block" is an increasingly common kind of headline in the financial pages of business publications.¹ In this case one of the giants in the food industry wants to get out of a profitable business line because it is not related to Kraft's primary focus on the food business.² Another recent headline called attention to a utility company that was paying customers to replace old refrigerators with new energy efficient models. This seemingly odd behavior for a firm which makes money selling electrical power makes more sense when the reader learns that energy conservation will eliminate the need for a multi-billion dollar plant expansion until the turn of the century.³ In a sense the utility firm is divesting itself unnecessary early growth.

What both examples have in common is a renewed interest within the civil sector of our economy for alternatives to rapid, diversified growth - the norm in recent years. Since it is not uncommon for private industry to take a more innovative approach to the problems inherent in large organizations, this chapter will explore and summarize available information on divestiture to set the stage for consideration of its applicability to the Air Force.

The newness of the concept of divestiture as a management strategy is reflected in the definitions in Webster's Third New International Dictionary. The choices available range from "undressing" to "abandon" which is labeled archaic. Finally a legalistic definition is offered which specifies a "compulsory transfer . . . of interests upon government order."⁴ None of these are really descriptive and none reflect current practice in the business world.

For the purpose of this paper divestiture will emphasize escaping the negative financial obligations associated with an activity. Two major categories are possible. First, an activity can be terminated with no follow-on. The termination of blimps for ocean patrol by the U.S. Navy after World War II is an example. A second approach involves the transfer of an activity from one organization to another, or perhaps creating a new independent organization around the divested activity. In either case, the financial obligations continue, but are attached to the new organization. A classic example of this was the creation of an independent Air Force in 1947 by splitting the air arm away from the Army. This "spin-off" approach probably holds the most interest for those facing today's budget problems.

As important as identifying what constitutes divestiture is identifying what it is not. At first glance,

the transfer of an activity to the reserve might seem to be a unique and almost ideal kind of divestment. In reality including this type of activity in the category of divestiture blurs an important distinction. Transfer to the reserve is more properly viewed as a force-mix question which is driven largely by an economic analysis. If in the final analysis the reserve can provide an equal capability for less dollars than an appropriate alteration of the force mix (i.e. a transfer) to the reserve is probably a reasonable strategy to conserve limited budget authority. Since the capability still exists along with a reduced financial obligation, this would not be a divestment strategy.

With a working knowledge of what a divestiture is, and is not, we can turn to our consideration of why this has become important and popular in the business world. Basically there are three general categories listed as reasons for divestiture by corporations. Perhaps the major reason cited is a recognition on the part of management that a particular unit of the company requires specialized knowledge which is foreign to the firsthand knowledge and experience of senior management. The demands of running the major portion of the company do not provide an opportunity for senior management to become expert in the specialized activity. The second reason cited, is that a particular activity is just too small to warrant appropriate management

attention to such issues as capital expansion and product lines. The issue here is not specialized knowledge, but relative importance and limited time. A third reason frequently given for corporate divestiture is a desire to sell a specialized unit at an attractive price to generate capital for the parent organization.⁵

Of the three reasons cited for divestiture, the first two have real applicability to our discussions of Air Force issues. The opportunity to "sell" a portion of a government venture to generate capital is limited at best. As with most attempts to learn from the civil business sector, not everything can be transferred.

Another authority in the field sees divestiture as appropriate for a portion of an organization which is "unable to synchronize itself with the rest of the corporation."⁶ This is a slightly different approach than the idea that management may lack the expertise to deal with a portion of the company. It is interesting to speculate on how such a "misfit" happens.⁷ Two likely reasons come to mind. First, an inappropriate acquisition could find management in serious trouble without the specialized knowledge to work the problems effectively. This is probably a common problem in the business world. A second less common cause could be the development of a minor portion of a company into a fast growing area which is outside the normal field of the parent corporation.

Closely related to the misfit idea is the importance of a "compatibility of values essential to a tempermental fit."⁸ For example, a pharmaceutical firm became involved in cosmetics only to find many in management viewed cosmetics as "frivolous" and not worthy of really serious attention.⁹ The frustration of advocates for small, but potentially important mission areas (i.e. special operations) within the Air Force can be compared to this example of the drug and cosmetic mismatch.

Outgrowing the parent corporation is a model which has some real bearing on the ultimate concern of this paper, the Air Force. In some respects, this is exactly what happened to the Army as the airplane matured from a novelty with some limited usefulness as an observation platform to a weapon with independent employment options. When the "baby" grows into a "monster," the original parents may encourage it to find a new home.

Before we leave this description of divestment strategy, another closely related management strategy is worth considering. Corporations may seek growth by expanding "horizontally" and integrating competitors (direct and indirect), or they can attempt a "vertical" strategy by reaching back to acquire suppliers and/or forward to acquire more control over the distribution system. The important point is to note that the horizontal strategy can easily take a firm in to unfamiliar territory.¹⁰ In the next

chapter, the Air Force approach to light tactical transports will be explored, and the case will be made that this represents a horizontal approach which has created a situation where divestment has been done "de facto" and should now be done deliberately.

As important as understanding reasons to support divestiture is a recognition of deterrents or barriers. One expert sees two major categories: (1) economic and (2) strategic.¹¹ As might be expected economic barriers are much easier to identify in the commercial world than in government operations. Nevertheless, the fact that divestiture decisions are heavily influenced by the disposal value does have a factor in government decisions. In most cases a divestment in a government environment results in no return on the budget authority consumed to acquire the item. On the other hand, government agencies are not required to provide annual profit and loss statements, so the loss of an asset is not as critical and should be less of a barrier to a divestment.

Of more concern are strategic exit barriers. In the business world these could include "image maintenance goals" and important "customer service obligations."¹² These barriers could play a role in government decisions. For example, abandonment of one mission area which supports another service may create questions of reliability in remaining support relationships. One need only think of the

heated debate going on currently over the issue of close air support for the Army to understand how this could be a factor. transports.

Image maintenance is a less significant factor, but it certainly can play a major role when human beings are involved in difficult decisions. Rand's analysis of 12 divestment decisions by major corporations found that in each case the decision was difficult to reach and implement. Rand found two major problems were parochial interests and absence of "explicit strategies to guide policy." Rand also noted that a divestment decision is "usually made in conjunction with a decision to continue or initiate another activity."¹³ Budget constraints can be anticipated to force Air Force decision makers to confront questions of continuing activities versus exploring new mission areas with greater potential such as space.

Although there is a limited amount of published data on the concept of divestiture, this chapter serves as an introduction to the concept and a survey of major issues. Clearly, one needs to be very careful in attempting to apply a business concept to the military. There are some very real differences. Force structure issues are much more difficult to reduce to a dollars and cents balance sheet. The consequences of failure in the business world are also very different than those in the military. A business failure, while certainly tragic for those immediately

involved, does not threaten the very foundations of the society. A failure on or above a future battlefield could. Still, there are are applications for this concept. In the next chapter the author will develop one case in detail and suggest some other areas for consideration. The current budget climate makes it important that we explore every possible tool to make a better allocation of limited resources.

CHAPTER III

CASE STUDY - LIGHT FIXED WING TRANSPORT

The previous chapter laid a foundation for the concept of divestiture. Most of the support came from the business sector. In this chapter, one mission area will be examined in detail as a possible candidate for divestiture. The next chapter will provide some other possible military related applications for further study.

Meeting the theater mobility needs of ground forces has proved to be a challenging task. Historically, there has been a size and weight lift requirement which was just beyond the helicopter and yet not big enough to justify a C-130, the international standard for tactical transports. The picture was further complicated by doctrinal considerations. Like two converging air masses whose differing characteristics create sometimes violent weather across the frontal zone, the light transport mission has been a zone of conflict between the Army and the Air Force.

Another round in this conflict is about to be fought. The Air Force is seeking \$70.5 million for FY 88 and an additional \$69.5 million in FY 89 for twenty C-27 light utility aircraft. The unspecified off-the-shelf aircraft should be able to carry a maximum payload of 10,000 pounds or 35 combat troops.¹ Congress was less than enthusiastic, citing current helicopter capabilities and the expected

deployment of the V-22 Osprey.²

The requirement for a light utility transport is not new. In 1958, the US Army purchased five YAC-1 light transports. With a gross weight of 26,000 pounds, payload of about 7,000 pounds or 32 troops, the YAC-1 is remarkably similar to the basic C-27 requirements. In addition to the payload specifications, this aircraft was able stop in as little as 300 feet from touchdown and had landing gear capable of withstanding a 14.5 fps rate of descent.³

A reasonable man might say that the YAC-1 sounds like the solution to the current requirement and ask, "What happened to the capability?" That is a complex question to answer. The Army was pleased with the test results of the YAC-1 and went on to purchase a substantial number of the aircraft, known as the CV-2 Caribou in its production designation. Air Force readers of Vietnam service vintage are probably more familiar with the C-7A designation of the same aircraft.

The means by which the Army CV-2 became the Air Force C-7A is a lengthy process worth reviewing in some detail. The Army felt that the Air Force was neglecting its obligations to provide tactical airlift support for the ground forces. In 1959, retired Army Chief of Staff, General Maxwell D. Taylor supported organic Army airlift.⁴ The Air Force, drawing on its experience with centralized control of fighter aircraft, opposed the Army idea and

advocated an integrated system with all fixed wing aircraft under Air Force control to provide a common user airlift service. In theory this approach would be more efficient by enabling all services to rely on one airlift system. Wasteful duplication would be eliminated by effective scheduling. A number of other issues were cited by the Air Force in making this argument: effective airhead traffic control, standardized procedures for loading and unloading cargo, and enhanced C-130 models offering greater capability.⁵

The next round in the Army-Air Force debate over the light fixed wing transport occurred in 1962. In that year the Army conducted a major study under the leadership of Lt. Gen. Hamilton H. Howze and adopted the airmobile concept. One of the implications of the Howze study was the need for a large fleet of small transports to make deliveries to forward fields with coordinated helicopter support for combat operations. The Air Force saw this as a move by the Army to establish its own air force. The Air Force specifically opposed deployment of the Army Caribou transport to Vietnam and argued that its smallest transport, the C-123, could do the mission the Army wanted to assign to the Caribou.⁶ Eventually, the Army did deploy the Caribou to Vietnam and used it effectively getting into small fields which the larger Air Force C-123 and C-130 aircraft could not negotiate.

The battle for control of the Caribou was rejoined over the issue of excessive duplication of services. The Air Force position was that only one agency should do the airlift scheduling to avoid wasteful use of a scarce commodity. By 1965 the Army had 65 Caribou aircraft in Vietnam and was considering the purchase of 120 Buffalo aircraft. The Buffalo was similar to the Caribou except it was equiped with turboprop engines and had greater performance capabilities.⁷ The Air Force viewed the Buffalo as a duplication of the C-123 which it had modified by adding jet engines to supplement the primary reciprocating engines.⁸

The battle for control of the light transport fleet finally escalated to the service chiefs in 1965. The Army maintained that the existing arrangement was essential to provide responsiveness to emergency requests and for advance planning. The Air Force continued to argue for the efficiency advantages of a centralized system serving all users in the theater. Participation in the discussions between the two chiefs were limited to a small group of Army and Air Staff officers. The final agreement for the transfer was drafted by the two chiefs and the staffs were informed that attempts to alter the understanding would be met with severe sanctions.⁹

The final agreement between the Chief of Staff of the the Army, General Harold K. Johnson, and the Chief of Staff

of the Air Force, General J. P. McConnell contained a number of important provisions. From a force structure standpoint, all fixed wing tactical airlift aircraft were transferred to the Air Force. Furthermore, the Army agreed not to acquire fixed wing aircraft for tactical airlift in the future. In return, the Air Force agreed not to acquire helicopter aircraft for intratheater transport purposes. The agreement also provided for ". . . attachment [of light transports, but not C-130's] to the subordinate tactical echelons of the field army (corps, division, or subordinate commander), as determined by the appropriate joint/unified commander."¹⁰

Following the agreement between the chiefs, Operation "Red Leaf" was launched to transfer the Army Caribou aircraft to the Air Force. The turnover required complete training of both flight and maintenance crews and was completed by the end of 1966. Interestingly, none of the available literature addresses the matter of transferring personnel along with the aircraft to minimize the training difficulties. This may have been explored and discarded as being "too tough."¹¹

The proof of any agreement can only be found in evaluating the operational experience following its execution. This is especially true in supporting this evaluation of a divestment option.

Air Force experience was mixed. The initial operational experience was not accident free. This could be

rationalized since new pilots needed time to adapt to a demanding new mission. Of greater significance was the difficulty experienced in integrating the Caribou into the single user airlift system. The limited range and capacity of the Caribou did not allow it to be quickly diverted to the different Corps areas in Vietnam. This was in direct contrast to fighter strikes which could be quickly concentrated within the theater to a particular area needing a high volume of firepower. In response, the Air Force quickly adopted a dedicated user concept which saw the Caribou aircraft assigned to Army commanders who directed their employment. In addition, the Air Force found the Caribou conflicted with Army operations since it flew at altitudes frequently used by helicopters and often operated out of Army airfields.¹²

The reader should note that the primary reasons cited by the Air Force for control of the Caribou - scheduling and avoiding operational conflicts at forward fields - were not resolved by the transfer of the aircraft from the Army to the Air Force.

In addition to the operational problems, the end of the conflict in Vietnam brought another problem. Declining budgets caused all the services to look for areas to reduce. Over a short span of years the Caribou found its way into the Guard and Reserve and, ultimately, into the Aerospace Maintenance and Regeneration Center ("boneyard") at

Davis-Monthan AFB. Foreign assistance grants have depleted the stored fleet. The only other smaller than C-130 size transport in the inventory, the C-123, followed the Caribou to Davis-Monthan in 1986. At this point the Air Force found itself in exactly the same position it had been in the 1960's. It had no light tactical transport capability to support other service requirements.¹³

Furthermore, the US Air Force Airlift Master Plan ~~does~~ not address the issue of a light tactical transport. In fairness, the Master Plan's key emphasis was on clarifying how the C-17 fit into the existing airlift fleet, but the absence of any treatment of light transport requirements is suggestive of the amount of interest placed on the subject.¹⁴

The requirement refuses to go away, however. US Southern Command is looking for a 10,000 pound payload transport for Central and South America. Military Airlift Command wrote a Statement of need for the SOUTHCOM requirement, but the real interest of MAC appears to be in a Super STOL or V/STOL aircraft called the Advanced Tactical Transport. While not necessarily a C-130 replacement, the advanced aircraft will be larger than the light Caribou type aircraft sought by SOUTHCOM.¹⁵

The evidence of the last two decades points out the difficulty the light tactical transport mission area has in finding a home. Twice the Army has identified a requirement.

In the 1960's the Army also funded and purchased an airframe to meet the requirement it had identified, only to see the Air Force acquire the system in a roles and mission conflict. Today, the Army has again identified a requirement thru SOUTHCOM that the the Air Force can not readily meet since it had retired the fleet of light transports. Clearly the root of this problem has proven difficult to identify. The concepts presented in Chapter II when applied to the experience outlined in this Chapter, suggest the long term answer is a "divestment" of the mission area by the Air Force. The light tactical transport is much more like a modern helicopter in terms of gross capability than the heavier airlift aircraft currently operated by MAC in a common user system. By letting the Army define and meet it's requirement for this specific area, the neglect of the requirement could be ended.

The intent of this chapter has not been to prove that a particular divestment should be undertaken. The purpose was to identify a viable candidate and explore it in some detail. The next chapter will present several other candidate areas for consideration.

CHAPTER IV

USAF DIVESTITURE POSSIBILITIES

The last chapter attempted to provide a relatively fully developed case for divestiture of a specific, specialized mission area. In this chapter some other areas will be highlighted with the objective of stimulating further thought on the topic. The discussion is not limited to examples which are immediately possible or politically feasible. The object here is to open horizons for the application of the concept. The concluding chapter will discuss some "reality" considerations in it's examination of how to approach a divestment strategy in the Air Force.

Where one finds two or more organizations doing essentially similar activities in government, one should look for divestment potential. For example, the United States has two air reserve forces: the Air Guard and the Air Force Reserve. Both are effective capable, organizations. While the Air Force Reserve is a federal force, the Air Guard falls under the purview of the state governor. A reasonable man might ask why a state governor would need the capabilities of a tactical air arm to meet his responsibilities to maintain order in man-made or natural disasters. The ground component of the National Guard is a reasonable tool for the state governors to have available. The Air Guard is somewhat of a historical accident stemming

from the large surplus of aircraft and trained personnel resources following World War II.

Consolidating the two air reserve organizations could reduce the management overhead substantially and make scarce resources available for modernization of the the remaining force. While this is a possible candidate, political factors probably would stymy any attempt to seriously consider this area for divestiture actions.

Technology promises to provide opportunities for divestments that could have far reaching implications. Consider, for example, a tactical fighter force with such high reliability, that support equipment for maintenance could be left at the stateside main operating base. Improved fuel efficiency and conformal tanks would eliminate aerial refueling requirements. While this futuristic approach is a long way off, engine and avionics reliability is providing opportunities for changing maintenance concepts and divesting support structure required by yesterday's systems.

SAC's experience with re-engining KC-135's with the CFM-56 engine in place of the old J-57's is a case in point. Aside from the performance improvements offered by the additional thrust of the new engines, the reliability offers the possibility of eliminating intermediate level maintenance for the engine. In fact, the low failure rate can cause problems keeping an engine change crew trained, let alone busy. The fabled lonely Maytag repairman may be

joined by some Air Force mechanics.¹

The potential for similar quantum leaps in avionics reliability promise even greater potential for restructuring existing maintenance organizations. The objective of Air Force planners should be to push for full consideration of the value of being able to divest organizational layers when new systems are being developed.

Like the light tactical transport mission area, close air support for the Army might be a divestiture candidate. The A-10 has taught a couple of lessons. First, speed, not the ability to absorb damage, is probably the best defense a fixed-wing aircraft has in a high threat environment. Second, single role aircraft don't require the sophisticated command and control system of multi-role platforms. The single role A-10 really can be more easily parceled out to ground commanders (probably not below division level) than a multi-role machine which might have to swing from close air support to offensive counter air to eliminate a critical threat. Perhaps the appropriate fix for the CAS problem is to redefine the area of responsibility and let the Army have the really close air support mission. Needless to say this is not a likely area for early divestiture, but we should guard against limiting our thinking as we consider the range of possibilities.

The recently negotiated intermediate-range nuclear missile (INF) treaty points to yet another approach to

divestiture. Unique to this treaty is the elimination of an entire class of weapons. The more conventional treaty approach is to reduce numbers of weapons, but not to zero. The advantages of eliminating a class are primarily in the verification area, since the detection of just one missile from the eliminated class would be an undisputed violation. In contrast, reduction in numbers makes verification more difficult because of the problem of making and keeping an accurate inventory count. A secondary benefit of the elimination of an entire class is related to the concept of divestiture. By divesting the entire inventory of a particular class, the overhead can also be eliminated. While this concept can and should only be a secondary consideration in the arms control process, it should not be overlooked.

In contrast to the the favorable results (from a divestiture standpoint) in the INF agreement, the current activity surrounding the future of the B-52G illustrates the more typical pattern of holding on to old weapons. "Gen. John T. Chain, commander Strategic Air Command, announced Sept 17 [1987] that plans to retire 150 B-52G's are being reconsidered in light of a possible arms agreement [INF] with the Soviets."²

An additional perspective on the impact of retiring the "G" models came from Carswell AFB where the conventional bombing role was applauded for providing ". . .

more flying years for the navigators and bombardiers who stand to be in oversupply if the number of bombers drops."³ Missing from this discussion is a mention of the costs associated with maintaining this force in a period of tight budgets and an identification of what other opportunities would have to be foregone. Even more interesting is the proposal to deploy these B-52's to the theater and "chop" them to the theater commander.⁴ The difficulty of protecting B-52's based in Europe, a primary employment theater, from attack is also not mentioned. Finally, some senior SAC leaders are pitching the B-52 for an "aerial-guerrilla role."⁵ All of these concepts have been derived from the availability of a system about to be retired. Without a detailed divestiture analysis of systems, advocates can be counted on to find applications for the old system to keep it in the inventory. Any existing weapons system is likely to have a large number of advocates for it in the force. An equally strong analysis of the total divestment option is essential to provide a balance.

Looking to the future, the space activities of the USAF may form a divestment candidate as the force matures. While the time is probably not right to begin consideration of this possibility as a serious option, the time will come when space activities consume so much attention and such a significant percent of the Air Force budget that divestment will be a serious consideration. One need only look at the

development of the airplane within the Army to see the potential for history repeating itself. Perhaps such a divestment of space can be done with more harmony if the process is recognized as a natural evolution.

The potential for application of divestment strategies is great as this chapter has indicated. None of the examples discussed have immediate prospects, but they illustrate the potential. In the next chapter, approaches to a divestment strategy within the Air Force will be examined in more detail.

CHAPTER V

IMPLEMENTATION

No study of divestiture would be complete without some thoughts on how to put the concept into practice. Basically two approaches are available. The first could best be described as ad hoc. One merely pursues an opportunity whenever it arises. An example of this was the Army transfer of Caribou transports to the Air Force outlined in Chapter II. The second approach is a more systematic and practical one which makes divestiture part of the formalized organizational planning process. In actuality both approaches may be essential.

In considering the organizational strategy, one needs to anticipate likely obstacles in the path. A Rand study identified five barriers within the Air Force. First, establishing objective criteria was difficult in the government arena since profit and loss data was not available or particularly useful. Second, information was not easily available about all aspects of many activities (e.g. security and compartmentalization). Third, career interests were often threatened by any move to terminate an activity. Fourth, threatened programs often mobilized support from both within the government (operators) and outside (contractors). Fifth, top leadership needed to be willing to invest substantial time and energy to any

divestment decisions.¹

Another study points out the psychological barriers. Expansion and acquisition are viewed as positive "image building" activities. On the other hand, "Divestment is seen as an admission of failure, a retreat and sweeping up after the main event."² While this study was based on European corporations, anyone with experience in a government bureaucracy should be able to identify similar patterns of behavior. Any strategy will have to overcome the barriers mentioned above.

A systematic approach to divestment decisions offers the best chance of success. By working the issue on a regular basis, the barriers outlined in the Rand study can be offset by building organization experience which indicates that careers do not have to be damaged by terminating a marginal activity and putting the resources into a more productive one. Top leadership may discover that a systematic approach has the advantage of corporate memory and the momentum of suspenses to reduce the time and energy required in an ad hoc approach.

One systematic approach, borrowed from the corporate world could be adapted easily to the Air Force. The five step approach is displayed in Figure "1" on page 28. It does not require a great deal of imagination to substitute the unique language of the Air Force planning and budget process for the corporate jargon in the figure. Of critical

importance is the "review of corporate reasons." Translated, that becomes "review organizational mission." Without this step, peripheral missions may cause the organization to expand horizontally, while neglecting its essential core missions.

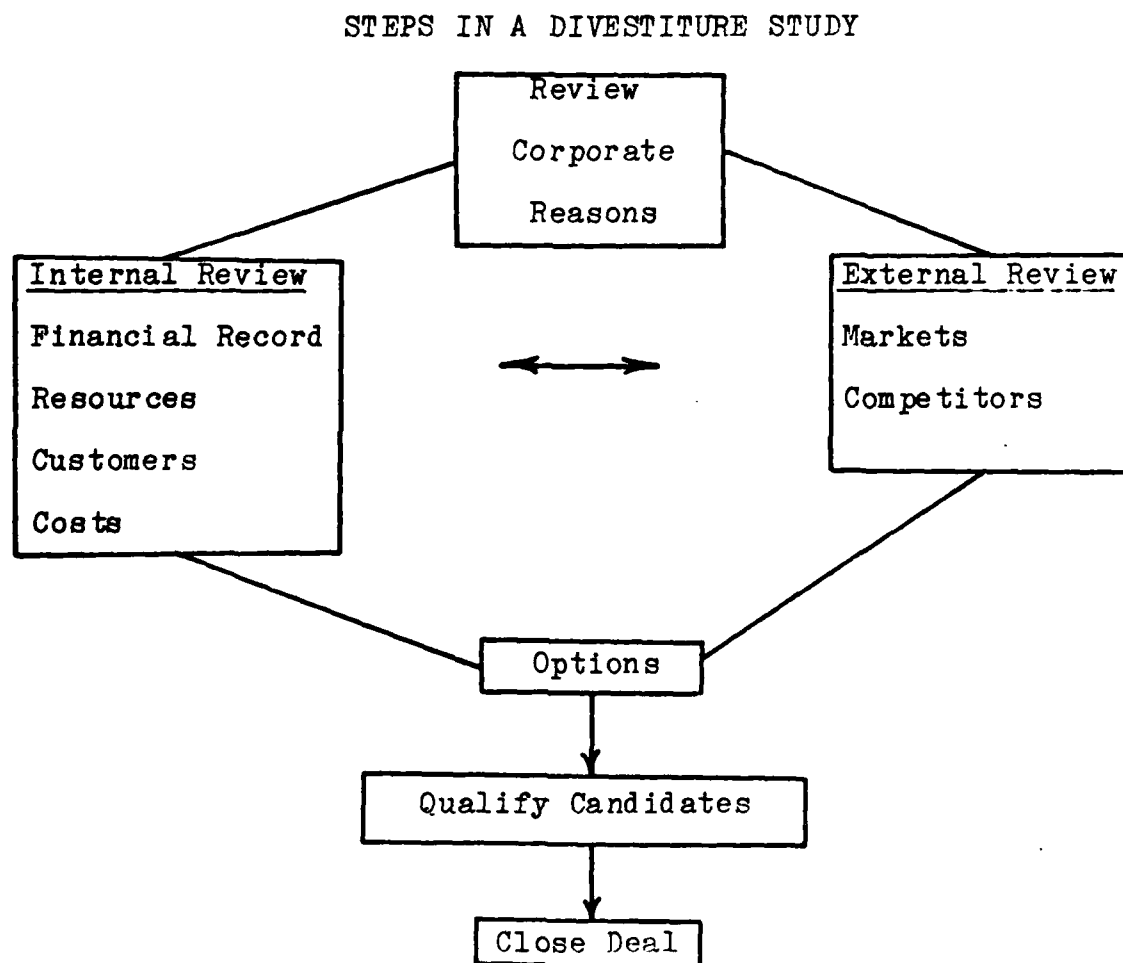


Figure 1. Systematic Approach³

External review becomes "threat analysis." Internal review gathers programmatic data. Options and qualified candidates are useful terms within the Air Force structure and closing the deal would require a variety of programming

actions. While the model has merit for the Air Force, it needs point to anchor it into the planning process.

One logical place for a divestiture analysis would be as part of the mission area analysis (MAA) effort.⁴

Summary results of MAA are included in the USAF Planning Input for Program Development ("The Plan") which helps guide the programmers as they put together the USAF Program Objective Memorandum.⁵

The MAA approach has been partially successful in the past in identifying candidates for divestiture. A radar surveillance system in Canada aimed at Soviet bombers on a polar route to North America was shown to have minimum effectiveness because of its limited ability to detect low-level penetrators. The system was costing the U.S. \$100M and the Canadians \$50M per year to operate and maintain. As the AF Planner, now retired Maj Gen Perry M. Smith was successful in initiating action which resulted in eliminating the marginal radar line. The difficulties of divesting any marginal activity are often more in the minds of staff agencies than in the real world. In the case of the Canadian radar, conventional wisdom held that the Canadians would object to the loss of support. In reality, when General Smith approached the Canadians, he discovered that they were secretly pleased at terminating the activity. This would free up the \$50 million a year it was costing them and also give them an excuse (lack of U.S. support) to

use on domestic critics of the closure.⁶

While the systematic approach may work well in an organization, such as the Air Force, with a well developed planning function, it will probably not identify all appropriate divestiture opportunities. In the words of another Rand study, ". . . termination efforts required the use of nonroutine procedures outside the established budgeting and planning process."⁷ This conclusion was reached after a study of twelve corporate terminations done at the request of the AF.

Recent history supports the Rand observation. The famous "31 initiatives," many of which had divestiture implications for one or both services, were consummated because of extraordinary efforts by the Chiefs of Staff of the Army and the Air Force and their Ops Deputies. These efforts were, in turn, based on professional associations beginning at West Point as classmates for the Chiefs and continuing through their service careers in a variety of joint and combined duties. The Ops Deputies had been classmates at the National War College and were in the same seminar.⁸ Routine procedures would not have been sufficient to hammer out the comprehensive agreements between the Army and the Air Force against all the resistance that inevitably resists major changes.

The efforts of the senior leadership of the two services has, however, been institutionalized and the

process set in motion has continued with much less direct involvement. The lesson seems to be clear. Any divestment activity will require both an organized process and special attention from the top leadership to seize unique opportunities.

An organization as large as the Air Force needs to pursue a planning approach that identifies good ideas which have outlived their usefulness, promising ideas that did not meet expectations, and mission areas which have matured beyond the scope of the primary roles of the service. An aggressive approach to divestiture will enable the Air Force to prune back dysfunctional areas to preserve a healthy organization able to meet the defense challenges it faces. The current cycle of downward pressure on budgets makes it especially important that divestiture be given serious consideration.

NOTES

INTRODUCTION (Pages 1-3)

1. Major General I. B. Holley, Jr., "Of Sabre Charges, Escort Fighter, and Spacecraft," Air University Review 34, (September-October 1983): 2.

2. Ibid., p. 4.

3. Walter Kross, Military Reform, The High-Tech Debate in Tactical Air Forces (Washington, D.C.: National Defense University Press, 1985), p. 206.

4. Holley, p. 4.

CHAPTER II (Pages 4-11)

1. Richard Gibson, "Kraft Inc. Puts Duracell Unit on Sales Block," Wall Street Journal, 4 December 1987, p. 4.

2. Ibid.

3. Bill Paul, "Current Trend: Big Electric Utilities and Consumers Push Conservation Strategy," Wall Street Journal, 8 December 1987, p. 1.

4. Webster's Third New International Dictionary (Springfield, Ma.: G & C Merriam Co, 1981), p. 663.

5. Ronald N. Dubin, "Divestments - Some Practical Thoughts on How to Sell a Division," Financial Executive, November 1987, p. 37.

6. Thomas L. Wheelen and J. David Hunger, Strategic Management and Business Policy (Reading, Ma.: Addison-Wesley Publishing Company, 1986), p. 181.

7. Ibid.

8. Peter F. Drucker, Management: Tasks, Responsibilities, Practices (New York: Harper & Row, Publishers, 1974), p. 709.

9. Ibid.

10. Ibid., p. 171-172.

11. Kathryn Rudie Harrigan, "Deterrents to Divestiture," Academy of Management Journal 24, (June 1981): 307-308.

12. Ibid.

13. Susan J. Bodilly, Twelve Case Studies of Terminations and Divestitures by Business Firms (Santa Monica: Rand, 1980), p. v.

CHAPTER III(Pages 12-19)

1. Michael Ganley, "USAF Wants to Buy Intratheater Transports for Southern Command," Armed Forces Journal, July 1987, p. 43.

2. The V-22 in a transport role will present a real challenge to "doctrine by configuration" proponents. The V-22 has a fixed wing with tip mounted tilt-rotors. This unique arrangement should provide hours of debate over definitions of helicopters and fixed wing aircraft.

3. "Caribou Debut," United States Army Aviation Digest, November 1959, pp. 1-3.

4. Ray L. Bowers, Tactical Airlift, The United States Air Force in Southeast Asia Series (Washington, D.C.: U.S. Government Printing Officer, 1983), P. 31.

5. Ibid.

6. Ibid., p. 109.

7. Interestingly, discussions with Boeing Company representatives at the 1987 Airlifter's Convention in St. Louis indicated that Boeing was considering reopening the Buffalo production line of the recently acquired Dehavilland Aircraft of Canada. Boeing thinks the Buffalo would be an excellent candidate for the light transport role, but the high costs of reopening production is a negative factor.

8. Ibid., p. 237.

9. Ibid., p. 237-238.

10. Ibid., p. 673.

11. J. Elmore Swenson, "Operation Red Leaf," United States Army Aviation Digest, February 1967, p. 2.

12. Wilbert Turk, "End-of-Tour Report: 483rd Tactical Airlift Wing, 11 September 1968 to 4 September 1969," (Project Corona Harvest, Maxwell AFB, Alabama, 1969), pp. 2-6.

13. Tony Epifano, "It's Up or Out After 30 for Aircraft, too," The Officer, October 1986, p. 15.

14. U.S. Air Force Airlift Master Plan (Scott AFB: Headquarters Military Airlift Command, MAC/XPPB, 1983).

15. Glenn W. Goodman, Jr. and Benjamin R. Schemmer, "Interview with General Duane H. Cassidy," Armed Forces Journal, January 1988, p. 50.

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1. Information presented by Col Jack Reynold, AFLC Reliability and Maintainability 2000 Manage, during 6 January 1988 lecture to Air War College Acquisition/Logistics Elective.

2. David Fulghum, "Convention NATO Mission Sought for B-52Gs," Air Force Times, 5 October 1987, p. 35.

3. "Conventional Role May Extend Life of Aging B-52," Air Force Times, 4 January 1988, p. 25.

4. David Fulghum, "Some B-52s May Take on Aerial-Guerrilla Role," Air Force Times, 8 February 1988, p. 30.

5. Ibid.

CHAPTER V (Pages 26-31)

1. Paul Hill, Susan Bodilly, Thomas Glenna, Barriers to the Termination of Marginal Activities in the Air Force (Santa Monica: Rand, 1985), p. 3.

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3. Ibid., p. 19.

5. Perry M. Smith, Jerrold P. Allen, John H. Stewart, II, and F. Douglas Whitehouse, Creating Strategic Vision (Washington, D.C.: National Defense University Press, 1987), pp. 38-39.

4. Telephone interview with Major General Perry M. Smith, USAF, Ret., McLean, Virginia, 3 February 1988.

6. Ibid.

7. Bodilly, p. vii.

8. Richard G. Davis, The 31 Initiatives (Washington, D. C.: Office of Air Force History, 1987), p. 44.

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